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The Battle over Labor Standards in the Global Economy

"Woe unto them that call evil good, and good evil". *Isaiah v. 20.*

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I. Introduction

The battle between unfettered globalization and global labor and environmental standards has replaced the struggle between communism and capitalism over the best way to deliver the benefits of modern production to the world.

The chanting demonstrators at world economic summits, unions, human rights activists, and many NGOs believe that unencumbered free trade increases inequality and creates a race to the bottom for workers worldwide. They see World Trade Organization (WTO) policies that govern globalization and the structural adjustment programs and debt repayment policies of the International Monetary Fund (IMF) and World Bank (WB) as benefiting multinational corporations and wealthy elites at the expense of normal people; and view the supporters of these policies as market ideologues or sell-outs to corporate geldt. What is needed are labor and environmental standards built into trade agreements, enforced if necessary by trade sanctions. Why shouldn't labor rights have the same legal standing under globalization as capital and intellectual property rights?

To the grey-suited functionaries representing governments, international organizations, and corporations, and to many trade economists, unfettered globalization promotes LDC growth. They see the IMF and World Bank as doctors in white coats bringing economically sensible policies to irresponsible or recalcitrant countries; and view the opponents of these policies as economic illiterates or sell-outs to leftist populism. In their opinion, global labor standards is protectionism in disguise – an evil plot to lock LDCs out of world markets. What is needed are reductions in tariffs, greater openness, and fewer governmental interventions in LDC economies, adopted if necessary through IMF or World Bank financial pressure.

The two contestants make a stark visual contrast. The activists are young, with long hair, blue jeans, Dump the WTO t-shirts (made under good labor conditions?) and sneakers (anything but Nikes). They fly budget class and sleep in hostels or dormitories in the cities where they protest. They mount campaigns against companies whose subcontractors are purported to mistreat workers, and march against the international agreements favored by the companies and functionaries. Because they have no authority, they make their case through public opinion and political pressure. Their colorful and sometimes violent protests grab headlines at world economic meetings. They are guerrillas in the public arena.

The unfettered globalists are middle-aged experts, with suits and ties (bought at the finer stores). They fly business class and sleep in n-star hotels when visiting LDCs, and travel in fleets of Mercedes from hotel to conference center or Finance Ministry and back. Behind them are an impressive array of government, international, and corporate bureaucracies. Because the functionaries have authority and resources, they would just as soon make decisions out of the public eye. They rarely admit to uncertainty or doubt about their policies. "The experts united, can never be defeated."

Given the resources of the two parties, the war over standards should be no contest. Unfettered globalists have the power to administer laws and policies and to force countries to take orthodox economic medicine or face financial Coventry. They commission impressive white papers and studies to support their views. By contrast, standards advocates have only one weapon in their arsenal: protest. In the LDCs where standards are low, they risk arrest or deportation if they raise their voices too loudly. But what looks like a one-sided contest has in fact been far more even. The advocates of standards stopped one major international agreement, the Multinational Agreement on Investment (MAI), helped abort the proposed Seattle WTO round, and have made global summits and trade conferences torture chambers for the functionaries. Most important, the standards advocates have set the agenda for discussion of globalization. They have impelled multinationals to develop corporate responsibility charters; have brought ethical issues to bear on consumer decisions; and have energised students around sweatshop conditions in far-away lands. Their pressures have led the World Bank and the IMF to stress poverty issues in their statements of missions or objectives and to make debt-reduction an issue at global summits. As an indication of their impact on functionary thought, consider the following IMF statement:

In September 1999, the objectives of the IMF's concessional lending were broadened to include an explicit focus on poverty reduction in the context of a growth oriented strategy. The IMF will support, along with the World Bank, strategies elaborated by the borrowing country in a Poverty Reduction Strategy Paper (PRSP) which will be prepared with the participation of civil society——including the poor——and other development partners. Reflecting the new objectives and procedures, the IMF established the Poverty Reduction and Growth Facility (PRGF), which will be based on the PRSP, to replace the Enhanced Structural Adjustment Facility (ESAF).

Traditionally, the IMF and World Bank assumed that growth would naturally reduce poverty so that poverty reduction strategies were unnecessary; and that the experts, not the poor, knew what was best for LDCs. IMF and Bank policies on the ground may have changed little but the new jargon reflects the shifting balance in the battle. What has strengthened the advocates of labor standards is not the power of their arguments or evidence, (which I will shortly show is far from overwhelming) nor the intimidation of their marches and chants; but the fact that they reflect the attitudes of many normal citizens in advanced countries who care about the conditions under which the products they consume are made, particularly about child labor. This concern creates a market niche for the activists to pressure companies and governments to improve conditions. In addition, citizens in advanced democracies have also become increasingly suspicious about decision-making by unelected multinational authorities operating behind closed doors or by giant multinational firms. Indicative of this, in a 2000 survey 70% of American opinion leaders thought that NGO's were trying "to make the world a better place" compared to 11 percent who believed government or business were so trying. (Financial Times, Dec 6, 2000).

The failure of the international organizations to foresee or respond successfully to adverse economic developments around the world has also eroded their authority. Orthodox analysts did not see the Asian financial crisis coming nor expect the long and difficult road into market economies for the transition economies. They misread the East Asian success story, denying the fact or significance of major governmental interventions in the countries in that region. By contrast, the African "success stories" that the World Bank extolled in the 1980s, such as Malawi, have turned into disasters; while one of the poster countries for unfettered globalization at the turn of the new millennium, Argentina, has undergone economic collapse. It is hard to believe the functionaries when they fail to deliver on what they claim to know and are supposed to do.

Finally, as the scientific evidence for global warming and climate change has become more powerful, there is an increasing sense in advanced countries that unfettered growth will not work over the long term. This feeling is so widespread that the 2002 world summit was called the Summit on Sustainable Development, focused on the environment and poverty.

Antecedents

The battle between unfettered globalization and labor standards has historic precedents. In the 18th and 19th century, abolitionists targeted the international trade in slaves before taking on slave-holding itself. Arguments over slavery resemble those over labor standards, and indeed freedom from slavery is one of the core standards of the International Labor Organization. Like the anti-sweatshop activists today, the abolitionists rooted their cause in morality, while defenders of slavery argued that the slaves led better lives than they might have led in freedom so that abolition would harm the people they were designed to help. In the aftermath of World War I the battle focussed on global working conditions. Advanced countries created the International Labor Organization (ILO) in 1919 in the belief that "universal and lasting peace can be established only if it is based upon social justice" and that "the failure of any nation to adopt humane conditions of labor is an obstacle in the way of other nations which desire to improve the conditions in their own countries" (quoted in Charnovitz, 1987). This analysis reverberates today in discussions of the race to the bottom and social dumping.

During World War II, the ILO promoted the Philadelphia Conference, which promulgated conventions on the right of workers to organize and engage in collective bargaining. After the war, trade revived primarily among developed countries, and there was little concern for global standards. The General Agreement on Tariffs and Trade had only one labor provision, allowing countries to restrict the import of goods produced using prison labor. The Cold War emasculated the ILO. Despite its elaborate constitutional structures for monitoring and review, the ILO for many years was the weak sister of international organizations, with little money or authority. The agency was caught between the on-going struggles between communist and capitalist countries, industry and labor, advanced and less developed countries. It suffered from the 1977 to 1981 withdrawal of the US from the agency and from its inability to deal with the lack of freedom of association in communist regimes that were members of the organization. With the end of the Cold War and increased trade between LDCs and advanced countries in the 1980s and 1990s, the labor standards issue has come to the fore again, giving some new life to the ILO.

Within countries, advocates of labor standards and adherents to unfettered markets have also battled. The move to abolish discrimination against minorities, women, and others in employment saw many of the same arguments we see today about standards. Believers in the status quo argued that interference in employment would be economically costly. They warned that the protected groups would lose jobs. The movement activists made moral claims and argued that opening doors for discriminated groups would bring greater economic benefits than costs. While some members of those groups undoubtedly lost jobs, the overall outcome was to improve the economic position of the discriminated against groups and to enhance the moral standing of market democracies.

The anti-slavery and anti-discrimination movements succeeded in attaining their goals in relatively short periods of time. Committed groups of activists protesting in much the same manner as the advocates of standards today won the battle for public opinion and defeated the functionaries defending the status quo. As Fogel noted about slavery, "It is remarkable how rapidly, by historical standards, the institution of slavery gave way before the abolitionist onslaught . [W]ithin the span of little more than a century, a system that had stood above criticism for 3,000 years was outlawed everywhere in the Western world" Similarly, the idea that firms can blatantly discriminate against women, ethnic minorities, gays or lesbians, or the handicapped, once regarded as normal business practice, is anathema today.

The visuals in the current battle over labor standards pit the chanting demonstrators against the grey functionaries. It's "hey hey ho ho the WTO has got to go" on the one side, and the bureaucratize (vide the IMF statement quoted earlier) and alphabet soup of international financial organizations, programs, and groups on the other side: PRPG; ESFG; APEC; IADB; G-9; G-7; ABEDA; etc[1]. But the visuals are not the whole story. Beneath the demonstrations and functionary responses is an intellectual debate, replete with abstract trade models, econometric analysis of data, case studies, and the like; and as acrimonious argumentation over the correctness or relevance of the models and estimates as can be found in economics. As the Issiah quote indicates, many on each side regard the other side as evil disguising itself as good – an attitude sure to raise endocrine levels.

This essay seeks to assess the debate. I begin by presenting the case for unfettered globalization and its factual underpinning. Then I examine the case for labor standards and its factual underpinning. I then focus on what I consider to be the critical factor behind the labor standards movement -- moral feelings regarding the conditions under which products are made – and the critical problem in meeting the moral demands: that of implementing or enforcing standards in low income countries. I conclude by assessing the impact of the labor standards or anti-sweatshop movement on worker well-being in LDCs and make some suggestions as to how better to harness consumer attitudes about labor standards to improve living conditions in LDCs.[2]

[1] See www.sas.upenn.edu/African_Studies/Org_Institutes/International_Acronyms.html for a partial listing

[2] In principle, I should treat environmental standards as well as labor standards, but I will limit my analysis to what I know in the labor area.

II. The Case for Unfettered Globalization

Exhibit 1 boils the huge literature on the economic benefits of free trade, free flow of capital, and immigration, into four simple propositions. If you accept these propositions, the conclusion follows naturally that unfettered globalization under functionary rules is the best way for the world economy to develop.

The first two claims – about the economic gains from trade and factor mobility – come from basic trade theory, which specifies conditions under which trade, capital flows, and immigration, singly or together, raise output in the countries involved in trade. The key condition of the model is that those flows are motivated by differences in factor proportions. While the basic trade model is about comparative statics, and its extensions to growth are imperfect[3], the question of whether globalization improves output or permanent rates of economic growth is of little import in LDCs with extremely low per capita GDP. They have enough ground to close on the output side to make the difference between trade effects on the level of output vs trade effects on permanent growth rates irrelevant. Under standard assumptions, moreover, it does not matter whether globalization takes the form of trade or capital flows or immigration – all are perfectly substitutable (Mundell, 1957). The key is that globalization equalizes factor proportions across countries, raising world output and the output of participating countries. At the same time, globalization produces winners and losers: scarce factors in a given country lose from globalization while abundant factors gain.

The third claim – that growth reduces poverty in LDCs– is consistent with the basic trade model since trade-induced growth is supposed to raise the pay of abundant factors, which are the poor in LDCs. All sides in the battle recognize, however, that actual growth could increase inequality to such an extent that it would offset the income-raising effects of growth on the low paid. And, for what it is worth, there is the theoretical possibility of immiserizing growth: growth that leads to such large changes in the terms of trade that incomes fall in a country.

Finally, the most controversial part of the case for unfettered globalization is that the functionaries have indeed found the right set of policies to increase trade, capital, and growth. One can accept the argument that trade and foreign direct investment improve growth but still wonder if the functionaries have indeed found the one true path to increased trade and foreign investment and growth. Does the cure-all economic medicine that fits all countries regardless of differing institutions and economic structures really reside in a small corner of Washington DC and in related institutions around the world?

What does evidence say about these propositions?

There are a plethora of studies that relate trade and economic performance. As a crude summary, most studies find that trade per se and some measures of openness are positively associated with national income and with the rate of economic growth. But whether trade produces growth or growth produces trade is hard to establish. Cross country regressions find that diverse measures of openness are weakly and non-robustly related to growth (Renalt and Levine). Using a panel design Harrison found that some measures of trade are related but others are not. Rodrik and Rodrigues have uncovered flaws in several analyses linking trade policy measures of openness to growth. When researchers add measures of other country policies and institutions to regressions with openness indicators, the link between trade and growth in cross country analyses invariably weakens. Most disappointing, seemingly simple demonstrations that "globalizers" have better growth records than other countries have foundered, with definitions of who is a globalizer changing from researcher to researcher (compare Rodrik with Dollar and Kray) and even in the same paper from revision to revision (compare Dollar and Kray, 2000 with Dollar and Kray 2002). To an outsider some of the

[3] Indeed, in an endogenous growth model, trade can just as easily be harmful as good, given possible specialization of countries in goods which have greater opportunities for technological advance and learning. There is no evidence on this, however.

research has the flavor of lawyers' making a court case, where the point is to organize the data and present it in a way that best fits the unfettered globalism proposition rather than scientific discovery.

Finally, on the causality side, Frankel and Romer's instrumental variables effort to identify the impact of trade on growth independent of any reverse causality by using the geographic location of countries as the independent cause of trade does not demonstrate that the geographic effect operates solely through trade; nor show how policy-induced trade would affect trade. Since Zambia cannot readily move to Europe (though its people can migrate), knowing that trade due to nearness to, say, the center of the EU affects growth does not move the case for unfettered globalization far. In short, the evidentiary base for the claim that trade causes growth is far more problematic than the functionaries claim. If push came to shove, I would guess that the claim is true in more situations than not, but what do labor economists know about trade, anyhow?.

The proposition that foreign direct investment induces growth also runs into a serious identification of causality problem. Growth regressions show that the ratio of investment to GDP is associated with faster growth. Foreign direct investments are positively related to growth, though again determining causality is problematic, since one of the reasons foreigners invest in an LDC is that they think the country is on a good growth trajectory with increasing markets for their product. Reflecting this, the endogeneity of investment has led some analysts of the impact of human capital on growth to delete investment in physical capital from their growth equations.

The proposition that growth reduces poverty fares reasonably well, at least for the poorest countries. Even in countries whose economic growth has been associated with huge increases in inequality, such as China, the growth effect in reducing poverty has dominated the inequality effect in raising poverty. My analysis with Oostendorp of wage data from the Occupational Wages around the World data file shows that growth raises wages in the lowest paid and low skill occupations in LDCs. Cross-country regressions of poverty on growth tell a similar story (Dollard and Kray). Since many of the poorest in LDCs are close to subsistence, living in rural areas with little reliance on imported goods, the potential for immiserizing growth or for growth associated with skill-based technical change to raise poverty would seem to be minimal. Even in the US, where inequality has risen sharply, the rapid economic growth in the 1990s reduced poverty.

The weakest part of the unfettered globalization story is the claim that the functionaries know the right policies to improve trade and growth. While orthodox policies have a certain logic inside simple trade and macro models, whether they are right for real economies is less clear. Cross-country evidence shows that policy measures relating to openness such as tariffs and trade barriers have little link to growth. The great successes of post World War II development, the East Asian countries and Japan did not follow the unfettered globalization model. Their governments intervened in their economies in ways that the functionaries either refused to see or sought to deny. China also has grown with policies that no unfettered globalist (nor almost any other economist) would ever endorse from first principles: unclear property rights and limited rule of law, the hukou system of residence restricting internal labor mobility. By contrast, South Africa did just about everything the World Bank wanted it to do as part of its GEAR (Growth, Employment, and Redistribution) program and failed to deliver either growth, employment or redistribution. That world financial institutions did a poor job handling the 1997-98 Asian financial crisis and preserving Argentine economic success in 2001-2002 adds to the suspicion that their medicine is closer to medieval leaching than to modern antibiotics.

In short, the propositions that trade and foreign direct investment produce growth are plausible but unproven; the proposition that growth reduces poverty is basically correct; but the notion that the functionaries have the right policies to induce growth-increasing trade does not stand up. This does not, however, mean that enforcing global labor standards directly or via trade sanctions is better policy than unfettered globalization. That one medicine does not deliver what it promised does not mean that another will do better. To see how global labor standards might affect economic well-being, we must look at the arguments regarding their impact on the economy, and the evidence about what they actually accomplish.

III. The Case for Labor Standards

Advocates of labor standards distinguish between core standards that are related to the rules which govern labor market transactions and cash/cost standards that regulate outcomes.

In principle, core standards are comparable to the protection of property and rule of law that underlie all well-functioning market economies. The core standards include freedom from forced labor, freedom from discrimination, freedom of association, and freedom from child labor. Since child labor may be necessary for survival in poor countries, it is problematic to classify it as a core standard. In fact, the ILO differentiates between child labor of the worst form and other forms of child labor; and most advocates of standards make reduction of child labor conditional on policies designed to give children alternatives, such as schooling, and if possible family income support. The core standard that most challenges the functionaries and authorities does relate, however, to the rules of markets. This is freedom of association. The problem is that such freedom can produce trade unions who have the power to challenge governing elites and to contest functionary policy arrangements.

Cash/cost standards include a wide range of outcomes that directly influence labor costs. The most important and widespread standards are minimum wages (living wages), job security and unemployment insurance, pensions, and health and safety conditions. What distinguishes these standards is that their levels are supposed to vary with economic development. Minimum wages should be lower in poor countries than in wealthier countries; unemployment insurance may be affordable in Germany but not in India, and so on. The most problematic cash standard, which some analysts (Gary Fields) suggest belong in the core grouping is health and safety. The notion is that some health and safety practices – unlocked doors and egresses in case of fire, toilet facilities, some safety equipment – are sufficiently inexpensive that even poor countries should have them as a matter of course.

Exhibit 2 summarizes the case for global labor standards in four propositions. Accept these propositions and the conclusion follows naturally that establishing global labor standards are necessary to raise the well-being of workers and must be part of future world trade agreement. Let us consider the propositions and the evidence for or against them.

Fear that trade without standards leads to race to the bottom in standards -- social dumping-- was one reason the world community established the ILO. The basic logic of the proposition is competitive economics. As long as standards raise costs of production, this imposes a competitive disadvantage on producers with higher standards, who will be unable to compete with low standards producers. To maintain their place in the market, these producers must reduce standards. At first the argument was that bad standards in LDCs would drive out good standards in advanced countries, but given the difference in goods produced between advanced countries and LDCs, it is more plausible to worry that bad standards in some LDCs might drive out good standards in other LDCs.

I am dubious of both sets of arguments for conceptual and empirical reasons.

First, under almost any conceivable market situation, when workers want certain standards, the costs associated with their provision will fall in part on workers. A mandated increase in benefits shifts both the supply of labor (making it more attractive for workers) and the demand for labor (raising costs), where the two schedules are defined with respect to wages only. The extent to which the cost falls on employers or workers is an issue of incidence comparable to that of the incidence of taxes. Enough studies find that the incidence falls on workers (Ehrenberg) to greatly weaken the race to the bottom argument.

Second, some standards may have greater benefits than costs for an economy over the long run, even when they raise short term costs to firms. Child labor laws, laws requiring children to attend school, and the like, increase human capital formation at the expense of higher costs of production for firms that employ children. Studies in the US indicate that the benefits of these laws far exceeded any short run costs. Some health and safety regulations, which reduce injuries and fatalities, may also pay for themselves at the national level, although possibly not at the firm level.

Third, in a traded world, economies can adjust to different standards through changes in exchange rates. If Brazil wants to spend more on occupational health and safety standards than China, and if some of the cost of those standards falls on firms, Brazilian firms will be at a competitive disadvantage *at a given exchange rate*. But then the Brazilian currency will depreciate relative to the Chinese currency, and all Brazilians will bear the cost of the higher health and safety standards through the higher cost of imports. Countries can choose the level of standards they want.

Empirically, labor standards have risen in advanced countries in the post World War II period, despite increased trade among those countries and with LDCs. And, while under the pressures of economic problems, some standards like minimum wages have declined in many LDCs, countries continue to sign up to ILO conventions, which at least commits them to improving standards. Convention 182, against the worst forms of child labor, was ratified by 74 countries in just two years. Ratifications of seven other conventions relating to core standards has increased 40 percent since the end of the Cold War. The race to the bottom makes good headlines, but the content is lacking.

The notion that uncontrolled capital flows creates major economic problems rests on three points. First, as even advocates of unfettered globalization have come to recognize, there are massive speculative flows of international capital. Bhagwatti, in particular, has differentiated the case for free trade from the case for uncontrolled capital flows, stressing the dangers of manias, panics, etc on capital markets. Second, some LDCs have contracted debts that seem guaranteed to keep them in dire poverty almost regardless of their ensuing economic policies. The debts often arose under dictatorial or oligarchic regimes, abetted by the international financial community, and resulted in disastrous economic ventures through incompetence, corruption, or bad luck. Under the standard rules of the IMF, ordinary people who bore no responsibility for the loans to pay the piper through government cutbacks and lower real wages. Third, the direction of capital flows all too often does not follow the logic of the standard model of economic development, according to which capital is supposed to flow from countries with high K/L ratios to countries with low K/L ratios. The biggest recipient of capital flows is the US, which is the safe haven for many wealthy persons in poorer countries. Thus, uncontrolled capital flows may not mean inflows from advanced countries to LDCs but the converse.

The proposition that unregulated trade and growth raises inequality and does little for poverty is potentially right about inequality but wrong on poverty. Several labor market studies have shown that trade is associated with increases in inequality in LDCs, contrary to standard theory, as well as with (modest) increases in inequality in advanced countries. Within trade theory, this could be explained with a Ricardian model, in which the industries that "migrate" to LDCs have low skill content in the advanced countries but relatively high skill content in the LDCs (Feenstra and Hanson, 1996). But GDP per capita is inversely associated with inequality and increases in GDP per capita seem to reduce inequality (Freeman and Oostendorp). On the poverty side, I have already noted the general finding that, even when inequality rises with growth, poverty tends to fall.

Finally, the claim that WTO trade sanctions could effectively enforce labor standards overstates the competence of the WTO and the power of sanctions. In a few relatively rare situations, sanctions have worked to affect economic policy, but in general trade sanctions are not the deus ex machina that standards advocates seem to believe they are. The WTO, whom advocates want to enforce standards, is filled with functionaries who lack expertise in assessing labor standards and commitment to improving standards. The WTO has trouble enough dealing with trade and intellectual property issues as it is. As the trade agenda moves beyond reciprocal tariff concessions to rule-writing, it is not clear how effective its enforcement powers will prove to be in any of these new areas. The pressures to allow for more flexibility in the implementation of the agreement on intellectual property, particularly with respect to drugs, is only the most prominent example of the problems the WTO is increasingly likely to face as it expands into behind-the-border regulatory areas. To give the agency another task, particularly one that would conflict with its goal of trying to increase access to markets, would lead to institutional schizophrenia or worse. Labor ministries are weaker agencies in virtually countries than ministries of finance, but no country assigns labor enforcement to the ministry of finance.

Point and counterpoint in the battle

Proponents and opponents of global labor standards have developed trade theory-based models to examine the conditions under which standards can or cannot improve the well-being of affected workers and have examined evidence on the impact of standards on growth, labor costs, and foreign direct investment. Exhibit 3 summarizes some of the main arguments.

On the side of standards, some argue that standards – particularly the standard on freedom of association – improve labor's bargaining position in societies where business and oligarchies often dominate the government and make it hard for unions to develop. By increasing workers' voice in national debates over reforms, moreover, the freedom of association standard can get gain greater acceptance of reforms. The question that remains is the extent, if at all, that international standards can actually deliver improvements in freedom of association.

If consumers in advanced countries are willing to pay more for products made under better conditions in LDCs, higher standards can increase the flow of money to those countries. Similarly, if LDCs could organize around global standards, they could alter the terms of trade in their favor by jointly passing on to advanced countries the cost of higher standards through higher export prices. Similarly, global standards could stop any race to the bottom erosion of working conditions. I will provide shortly information on consumer attitudes, but evidence that actual spending on goods produced with higher standards has increased is lacking.

On the side of unfettered globalism is the argument that the sweatshop conditions in LDC exports have better work conditions than those found elsewhere in those economies, where many work in primitive agriculture. This is uncontestable. As one worker in a Chinese sweatshop said, "this is hellish, but it's better than being on the farm". Wage studies show that multinationals in LDCs pay more than the average firm in the country. By contrast, the claim that there is no consensus on standards beyond slavery is demonstrably false. Many countries have signed up with the ILO conventions and many have labor laws and codes that show that they accept the ILO's core standards and many other conventions as well. The problem is not disagreement about what is right, but about how to implement or enforce what is right.

Unfettered globalists worry that standards raise costs and lower employment. To some extent, they should do this, though uniform standards adopted by all that affected costs similarly would presumably have little impact on employment. Consider the following complaints about working conditions in LDCs (from Oxfam):

Dark, crowded, hot, noisy workplaces
No emergency exits or fire extinguishers
Inadequate or no time to go the toilet
No canteen or place to eat
Abusive supervisers who strike young workers
Below minimum wage payments
Workers have no contracts
Compulsory overtime
Sexual or other harassment of workers
Late or short wage payments

How expensive would it be to remedy some of these problems? Many concern decent treatment at work and are likely to add little to the cost of production. Providing emergency exits or lights in a workplace or fire extinguishers or giving workers security from sexual or other harassment or the right to go to the toilet are not major capital items and should be relatively inexpensive to provide. Other standards may cost the produce considerably. Nike spent millions in making its Indonesian factory safe from chemical fumes. A sensible strategy for raising standards would be to start with those that are the least expensive items regarding decent treatment and then move on to more expensive ones.

Researchers have used cross country data to see if standards affect labor costs, foreign direct investment, or trade. The usual measure of standards are the number or kind of ILO Conventions that a country has signed up for. The problem is that these studies connect weak measures of standards to weak measures of labor cost at a far too aggregate level to stand up to critical evaluation. They are the "standards" equivalent of trade and growth regressions. This said, what they show is that the link between the measure of standards and costs, foreign direct investment (FDI) or related outcomes is exceedingly weak In the first such analysis Rodrik (1996)measured standards by the number of ratified ILO conventions and by US embassy reports on lax child labor standards and examined their relation on labor costs, trade in clothing, and FDI. He found that the number of conventions and superior child labor standards were associated with higher labor costs, but found little link between them and exports and found that US FDI was greater in countries with better child labor standards. The OECD (1996) examined whether violations of ILO Conventions 87 and 98, which relate to trade unionism and collective bargaining, affected outcomes and found no link between standards and economic growth, real wages, or trade. Kucera (2002) used a measure of standards that combined ILO conventions with some information on enforceability and also reports no clear impact. Flanagan's regressions linking ILO conventions to economic outcomes give comparable results – that "international labor standards do not influence labor costs, exports, and foreign direct investment." His interpretation is that the standards are purely symbolic, and do not benefit workers. But who among standards advocates believes that by itself signing an ILO convention raises anyone's wages?

Finally, unfettered globalists argue that even if standards were desirable (which many deny), they should not be linked to trade, and that the WTO is an inappropriate agency to deal with violations. The right agency, in their view, is the ILO. I accept the argument that the WTO should not be viewed as the super-enforcer of labor standards around the world, but worry that giving the problem to the "toothless" ILO is a cop out. If the advocates of standards were arguing for a stronger ILO, the globalists would argue for subsidiarity and strengthened labor ministries in LDCs. If the advocates of standards argued for international support for labor ministries in LDCs, I fear the globalists would argue for corporate codes of conduct, and so on.

The strongest opposition to global standards, however, comes from free trade advocates who regard them as nothing more than protectionism in disguise. The idea that Western activists and consumers care about the conditions of workers in some far-off LDC strikes some as naive or disingenuous. Behind this alleged social concern, they see greed and self-interest -- special interests trying to con the rest of society for their advantage. Employment protection and labor regulations? An effort by insider workers to screw unemployed outsiders. International labor standards? Protectionism by Northern unions. Protests against global trading rules?

Nonsense. Jagdish Bhagwati sees "The talk of "exploitation", failure to pay a "living wage" ... (as) little more than cynical manipulation of our moral instincts and an obfuscation of the reality to pursue our economic interest while creating the illusion that we are helping the victims instead." (Bhagwati, The Financial Times, May 1, 2000) T.N. Srinivisan has expressed distrust of labor and environmental standards clauses in international trade agreements in these terms: "the demand for linkage between trading rights and the observance of standards with respect to the environment and labor would seem to arise largely from protectionist motivation." The World Bank has declared: "The real danger of using trade sanctions as an instrument for promoting basic rights is that the trade-standards link could become highjacked by protectionist interests attempting to preserve activities rendered uncompetitive by cheaper imports." Mahathir bin Mohammed of Malaysia is even more damning: "Western countries openly propose to eliminate the competitive edge of East Asia... professed concern about workers' welfare is motivated by selfish interest."

If these critics of global labor standards were right on this one point, the quotation from Issiah would apply and the debate would be effectively over.[4] But here the advocates of unfettered

[4] One could argue that advocates motivated by protectionism could by chance produce a level of global standards that would improve the well-being of workers in LDCs, as an unintended consequence, but I doubt that even persons favorable to standards would accept such an argument.

globalization have completely misread their opponents. They misread their motivation and their intelligence. The movement for labor standards is grounded in economic concerns. But it is in individual preferences and behavior toward fairness in economic life rather than in the preference for enriching oneself monetarily at the expense of others. Trade unions in advanced countries know full well that some jobs and sectors have shifted permanently from the advanced countries to the LDCs. In the US union workers are disproportionately employed in high skill export industries, not in low wage import industries, so their economic interests lie in free trade not in protectionism. No union leader expects to see the shoe industry nor plastic toy manufacturing returning to the US. If UNITE, the garment workers union, is to grow, it will be in laundries and other non-traded goods sectors. Unions with protections goals have no reason to hide their intentions when that is what motivates them: they unabashedly seek protection from trade, as the US steel union did in 2001, when it struck a deal with the Bush administration.

Since the question over whether the standards movement is motivated largely by disguised protectionism or by moral concerns about the well-being of workers who make products consumed by persons in advanced countries lies at the heart of the battle over standards, I present next the evidence about consumer attitudes toward protectionism and toward labor standards.

IV. What Consumers Want

The starting point for an economic analysis of labor standards is that people care about the work conditions associated with the goods they purchase. Treating standards as part of the product parallels Adam Smith's and Alfred Marshall's analyzes of compensating differentials. Marshall (1890) differentiated between the bricklayer who cares whether he works in a palace or in a sewer and the seller of bricks who doesn't care whether his bricks pave the palace or sewer. The bricklayer's concern creates compensating wage differentials in the job market: higher pay for sewer work. The consumer who cares about labor standards consumes not only physical goods but also the work conditions associated with them. She is willing to pay higher prices for the goods produced under better conditions because she feels better knowing that the workers have decent conditions. This provides a financial margin for improving conditions or increasing wages in LDCs.

There are four pieces of evidence that demonstrate that there is a demand for labor standards: surveys of consumer preferences; experiments giving individuals the option of behaving in their own interest or taking account of the interest of others; corporate responses to anti-sweatshop campaigns; and the behavior of shareholders and share prices to allegations that firms produce goods under poor conditions.

Survey Evidence

You are offered two identical T-shirts with your favorite logo. One was made in good conditions in some third world country. The other was made in a fire-trap factory by people paid near starvation wages. Which T-shirt would you buy ... when the T-shirts cost the same? ... when the shirt made under good conditions costs a bit more?

Surveys that ask questions of this form invariably find that the vast majority of people report they would choose the garment made under better conditions, even if it cost a bit more. Exhibit 4 summarizes the results from surveys undertaken by Marymount University’s Center for Ethical Concerns; by the University of Maryland’s Program on International Policy Attitudes; and by the authors for an NBER project.[5]

The *Marymount surveys* were conducted in 1995, 1996, and 1999. In each, three of four consumers said they would avoid shopping in a store if they knew the goods were produced under bad conditions while not quite two of three say they would be more inclined to shop in stores combating

[5] This section draws heavily on Elliott and Freeman (2001).

sweatshops. An average 85 percent of respondents in the Marymount survey said they would pay $1 more for a $20 item if they could be assured that it was made under good conditions. In the 1999 *Program on International Policy Attitudes (PIPA) survey* roughly three of four respondents also said they felt a moral obligation to try to help workers faced with poor conditions and approximately the same proportion reported they would pay $5 more for a $20 garment if they knew it was not made in a sweatshop (University of Maryland 2000).[6]

Most respondents in the PIPA survey found convincing arguments for minimum standards -- that harsh conditions are immoral and that standards eliminate unfair advantage through exploitation -- while far fewer were convinced by arguments against standards -- that they reduce jobs in affected countries and impinge on national sovereignty. Most consumers did not expect workers in foreign countries to earn US wages (82 percent) and they also differentiated among labor standards. More were concerned about child labor and safe conditions than about the right to unionize.

The PIPA survey also presented broader arguments for and against making labor standards part of the trade agenda and found that most Americans understand the benefits of free trade but are concerned about the costs.[7] Just over half those surveyed favored lowering trade barriers after being informed about the costs of protectionism, compared to only 36 percent who favored lowering barriers to clothing imports absent the information. The figure rose to two-thirds, however, when freer trade was linked to government compensation for workers whose livelihood was hurt by trade, for example, adjustment assistance and training. Nearly 90 percent said that "free trade is an important goal for the United States, but it should be balanced with other goals, such as protecting workers, the environment, and human rights—even if this may mean slowing the growth of trade and the economy."

Most striking, the largest majority on any trade question (93 percent) agreed that "countries that are part of international trade agreements should be required to maintain minimum standards for working conditions." Thus, Americans support international labor standards in both their private consumption behavior and in the public sphere.

The results of the survey commissioned for the NBER project (Elliott and Freeman 2001) parallel those of the Marymount and PIPA surveys.[8] On average, consumers said that they were willing to pay 28 percent more on a $10 item and 15 percent more on a $100 item (including as zeros consumers who said that they were unwilling to pay extra for the assurance) (table 3.1). Eighty-four percent of a different sub-sample said that they would purchase a different T-shirt rather than one "with a nice logo" that local students said was made under poor labor conditions. Nearly two-thirds said that they would not buy the T-shirt made under poor conditions at any price.[9] The third who said they would buy it if the price was lowered wanted a mean discount of $4.38. On the other side, consumers said that they would pay an average of just $0.87 for knowing the product was made under good conditions (including 0s for persons who said they would not pay the extra amount, or who refused to answer).[10] The greater response to the utility-reducing information about bad conditions

[6] Comparing the Marymount and PIPA surveys, we see that a higher premium on a $20 item, $5 versus $1, reduces the number of people who say they would buy the product made under good conditions. In this range, moreover, the demand would appear to be modestly inelastic. Total revenues would rise with the increase in price from $21 to $25, but, since purchasers would fall from 85 percent of persons to 75 percent, revenues would still be maximized at the $20 price.

[7] For more analysis on public attitudes toward trade, see Scheve and Slaughter (2001).

[8] The survey of a small number of randomly chosen persons in the United States in fall 1999 was conducted by Springfield Telemarketing. A split sample design was used that posed different questions to different respondents to see whether responses varied with the wording or presentation of questions.

[9] We did not ask if they would take the good if we paid them.

[10] Due to a coding problem, this estimate may be too low and we are having the survey firm check the responses here. When corrected, the number may be somewhat higher than that in the text, but only moderately so.

than to the utility-increasing information about good conditions, which also appeared in the Marymount surveys, is consistent with Kahneman and Tversky's (1979) prospect theory, which shows people weigh potential losses more heavily than potential gains.

At the heart of any economic analysis of consumer tastes is the demand curve -- the relation between the number of consumers who would buy products at different prices. Our survey allows us to estimate the demand curve for labor standards, taking account of the potential difference in responsiveness to products made under good conditions and those made under bad conditions. We asked some respondents "how much more would you be willing to pay for items made under good working conditions" for items worth $10 and $100. We asked others if they would buy a $10 T-shirt made under poor conditions if its price was lowered to $9 ... $8 ... $7 ..., and how much they would pay for the T-shirt if it was made under good conditions.

Exhibit 5 show that both designs give qualitatively similar results: high elasticities of demand for products made under good conditions but low elasticities of demand for products made under bad conditions.[11] The willingness to pay for items made under good conditions has elasticities on the order of –3.0 to -5.0. The 20 percent to 30 percent of consumers who are unwilling to pay anything extra produce an immediate loss in revenue that these estimates indicate cannot recovered by those willing to pay more. In addition, there is a sharp drop-off in purchases as the price of the item rises. By contrast, roughly two of three consumers say they would not buy the item made under bad conditions under any circumstance and the demand for T-shirts produced under bad conditions is inelastic (-0.29) among the third who said they would buy them at a discount.

The implication is that firms can lose greatly from having their products identified as being made under bad conditions but have only limited space to raise prices for products made under good conditions -- unless consumers see competing products as made under bad conditions.[12] The differential consumer response to information about good and bad conditions helps explain, I argue later, the behavior of activists and firms in the market for standards.

Experimental Data: Do Consumers Act As They Say?

Of course what people say on a survey may not accurately predict their behavior, so this evidence may not convince the skeptic. No one this side of an Enron executive wants to admit that in fact he or she doesn't give a damn about anyone else. Indeed, the right strategy for CEOs who rob their workers and shareholders is probably to declare that they are honorable souls who give to charity while cheating on the corporate accounts.

A better way to find out whether people are willing to pay extra for a product made under good labor conditions is to perform an experiment by offering to sell a product to consumers with different associated conditions of production. Imagine two piles of T-shirts in a retail store. One says, Made Under Good Conditions meeting world labor standards. The second says, Made by child labor in Sleazo's Sweatshop. At equal prices, how many consumers would buy the Good Conditions T-shirt

[11] Some respondents refused to answer these questions and some gave inconsistent answers – saying, for instance, that they would buy the cheaper product no matter what and then saying they would pay extra for the product made under better conditions. We made the conservative assumption that anyone who refused to answer or who gave an inconsistent response would not pay a premium for a product made under good conditions or would buy the product under poor conditions. But had we deleted these observations, our results would be qualitatively the same.

[12] Since we did not specify the conditions under which the alternative product was made, this is an inference from responses to the two sets of questions. The design that would provide a test of this inference would be to ask consumers to compare a product made under good conditions with one made under positively bad conditions (at varying prices) and a product made under good conditions with one made under unknown conditions. Our analysis compared bad conditions with unknown conditions and good conditions with unknown conditions.

rather than the Child Labor T-shirt'? At a 50 cent premium, how many would make that choice'? At a $1.00, $2.00, etc ?

As of this writing, there are at least two such "standards studies" in the pipeline. The first, by a University of Michigan team, placed two towers of identical socks next to each other in a store, with a statement that those on one tower were made under good working conditions. The socks made under good conditions cost from 0% to 40% more than the others. This study found that at the same price, half of the consumers chose the socks made under the unspecified conditions – which would imply that the average consumer didn't care about standards – but it also found that increases in price for the socks made under good conditions reduced that proportion of purchasers from half to about a third, and that even the largest increase still left many persons choosing the socks made under good conditions. The implication is that there exists a niche market for socks made under good conditions that could garner a quarter to a third of the socks market and generate enough additional revenue to improve wages and conditions for workers, but that those socks would not sweep the market. Since socks are not a visible branded item about which there have been anti-sweatshop campaigns, and the experiment was not associated with a campaign, the results may not carry over to some other experimental design.[13] The second study, by a UCLA and Harvard team, will sell the T-shirts that have been the subject of consumer concern with advertising to make sure that consumers appreciate the difference in the conditions under which the items are made per the campaigns that activists conduct. But it has no results to report at this writing.

There is a substantial body of other experimental economics literature that suggests that the underlying motivation for consumer concerns about the conditions under which products are produced– fairness toward others – affects actual behavior. Analyzes that assume that people act as if fairness toward others is part of their utility function predict behavior better than analyzes that make the oeconomicus assumption. Consider the findings from three important experiments given in Exhibit 6.

The Prisoner's Dilemma is the most famous experimental game in the social sciences. There are two players. If they cooperate each gains a certain amount of money; if one defects and the other cooperates, the defector gains more than he makes from cooperating while the cooperator gets the lowest payout. If both players defect each gets more than if they were the sole cooperator but less than if both cooperated. The rational response in a one period game is to defect. But in fact players frequently choose the cooperative strategy. It is a stretch from the PD game to the standards problem. In the PD game "power" is equally divided between two players. The demand for labor standards depends solely on the consumer who can choose the cheap product if he/she so desires. But the outcomes from PD games call into question the assumption that people invariably behave the oeconomicus way.

The Ultimatum Game comes closer to the standards problem. It focuses on how individuals react to divisions of a given pie. The game has a simple structure. Player one -- the boss -- can divide a sum of money (say S100) between him and player two -- the worker. If the worker accepts the boss' offer, each gets the amount the boss decided to give. If not, the entire amount disappears. In this game oeconomicus says that boss will take S99.99 and offer the worker 50.01. Since both are better off, the worker accepts. But in fact that is not how anyone behaves. If I offer you 1 cent while pocketing the rest, you will probably say "f you" and neither of us will get anything. Knowing this, most persons playing the boss offer workers a greater share of the pie: on average 30-40 percent, with a modal amount of 50 percent. Offers less than 20% are invariably rejected. In multi period versions of the game, where the pie shrinks over time, workers often accept 2n period offers that give them smaller absolute amounts of money than they could have in the first period, if the 2nd period distribution is more even. The "unfairness" of the boss taking the vast bulk of the funds affects behavior. The stretch to the standards problem is shorter.

[13] The results have been described to me in a draft that is "for your reference" only, not for citation or circulation.

The Dictators' Game fits our case even better. In this game whatever the boss says goes. Two players are selected and given envelopes. One envelope has a 5100 and the other has S0. So if 1 get the S100 envelope I can keep the $100 and say to hell with you! Surely oeconomicus has this one right. Sorry, but no. In diverse variants of the Dictator's game only about 20% of players keep all of the money. Most people share some with their partners, albeit less than if their partner could veto their division. Even under highly stringent conditions designed to push people toward taking all the money, many still give some money to others.

Surveys that examine how people view economic actions offer guidance to why these experiments give the results they do. Kahneman, Knetch, and Thaler have shown that people care deeply about the social context in which decisions are made. People think it is fair to raise rents on elderly tenants when costs rise but not to raise rents when a drug dealer offers more money for the apartment. People do not look kindly on charging large sums for water to someone dying of thirst in a desert.

Going outside the laboratory, the fact that people contribute to charity and volunteer time for charitable activities shows that they sacrifice income for social goals. Charitable giving and volunteering is greater in the US than in other advanced countries, presumably because the US does not have a large welfare state. In the charitable sector, moreover, much giving and volunteering comes in response to requests from activists (Freeman 1997). Again, people behave as if they care for more than their own immediate consumption and thus could be expected to consider labor standards in their purchase of goods, as they say they would in surveys.

Corporate responses and share prices

If consumers did not care about conditions, firms would simply ignore the allegations as irrelevant to their bottom lines, and the share prices of firms facing campaigns would be unaffected by allegations that products were made under poor conditions. In fact, companies have responded to anti-sweatshop drives and allegations that products are made under poor conditions have had substantial impacts on share prices. Firm behavior is also consistent with the survey finding that consumer demand for good and bad conditions is asymmetric since firms rarely address labor standards issues unless forced to do so by bad publicity. Inelastic consumer demand for goods produced under abusive conditions gives companies an incentive to respond to negative publicity, elastic demand for “worker-friendly” products means that firms see little advantage in marketing their products on that basis unless it costs them little or nothing to do so.

Allegations of sweatshop abuse generally arise in the apparel and footwear sectors, which are labor-intensive, geographically mobile, and highly price-competitive (ILO 2000). Companies in these sectors focus on product design and marketing, while contracting out most or all of the actual production. Large retailers with a prominent market presence, such as Wal-Mart and The Gap, or firms with high brand name recognition and recognizable logos, such as Nike and Levi’s, are the most vulnerable to activist campaigns because they sell an “image”, which can be tarnished by campaigns. Many of these firms have responded to activist campaigns alleging that they or their subcontractors mistreat workers. Levi’s adopted the first code addressing sweatshop issues in the early 1990s after allegations of abuse among its suppliers in Saipan. Wal-Mart followed after its products were linked to child labor in Bangladesh. Nike initially rejected responsibility for conditions in its supplier factories but then took steps to improve conditions in order to blunt unceasing criticism from activists. Reebok has avoided being tarred by the same brush as Nike by creating a human rights award to honor activists fighting for democracy and against child labor and other abuses. For its part, Nike has substantively improved the conditions in its factory in Indonesia.

The widespread growth of corporate codes and the creation of the Fair Labor Association in the US by major apparel retailers, the accession of some of the largest British firms to the Ethical Trading Initiative, shows that firms do indeed fear that some consumers will shun their products if the firm is seen as operating with poor labor conditions. The OECD has reported that 246 major firms have corporate codes. The Global Reporting Initiative receives reports that over 2,000 companies report on their economic, environmental, and social policies, practices, albeit in different and inconsistent ways. Some firms have their own codes. Some use industry codes, such as those developed by the Fair Labor Association. Some firms pay for independent monitoring by groups which specialize in assessing and improving labor standards, such as Verite. Many firms have hired Price Waterhouse Coopers to audit some of their subcontractors. A few firms have agreed to independent monitoring by NGOs in LDCs. The Gap spends $10,000 a year for independent monitoring of its El Salvador subcontractor factory, Charter, and considerable management to assess the monitoring and resolve disputes. It has estimated that to duplicate this at each of its 4000 subcontractors would take about 4.5 percent of annual profit (NY Times, April 24, 2001).

Exhibit 7 documents how Timberland, which produces much of their shoes and boots in low wage LDCs, has followed the pattern, developing a corporate code in 1994, employing Verite to monitor its subcontractors, and building training into its monitoring process.

Shareholders and stock prices

Firms face pressures not only from consumers but also from shareholders. In mid 2002 there were at least 45 proposals filed to press management to be more attentive to global labor standards. The biggest pressure was at Unocal, which does business in Myanmar, where forced labor is common. One-third of the shares voted for the company to adopt a code of conduct that included the core standards of the ILO, including a ban on forced labor and child labor. Other firms, ranging from Sears to Home Depot to Colgate Palmolive to Stride Rite and Delphi Automotive also had large shareholder support for global standards initiatives.

Finally, there is evidence the stock market responds to news about low labor standards produced by activist campaigns. A recent paper that I reviewed (anonymous name) used an event study methodology. It assessed the effect of 79 events in which campaigners claimed that a firm or its contractors operated under poor labor conditions, and 12 cases (all Reebok) where the firm received good press for its efforts to improve working conditions. In over 2/3rds of the cases of alleged poor labor conditions, share prices fell. In the case of NIKE the decline cumulated to a drop of 19% – small wonder that Philip Knight cut off the firms' support of universities that joined the Worker Rights Consortium to fight sweatshop conditions. The median drop in share values associated with a campaign was around 6%. By contrast, the increase in Reebok shares from good news was a modest 2-3%.

Labeling

The ideal competitive market solution to the problem of labor standards is through labeling of goods that would tell consumers whether or not a purchased good meets specified standards, including being produced under good conditions. The problem is that it is hard to know the conditions under which goods are produced in a global economy Consider, for example, the chain of production for one US retailer, JC Penney, in one country, the Philippines (Exhibit 8). JC Penney infant and children's apparel are procured from an importer who gets them from a contractor who relies on subcontractors and home-based production. Through the chain of procurement/ production, JC Penney contracts with over 2,000 suppliers in more than 80 countries, each of whom may subcontract to other producers. Another major US retailer, Nordstrom has more than 50,000 contractors and subcontractors. The National Labor Committee estimates that Wal-Mart has used 1,000 factories in China and that Walt Disney products are made in 30,000 factories around the world. The problem of monitoring all of these operations is immense.

The situation is even more difficult in countries with more closed political systems. The U.S. currently imports billions of dollars of Chinese goods. Many of these goods are undoubtedly produced in firms that have good working conditions for a low income country, but many are surely not so produced. Who can tell whether the plastic super-hero toy or beanie doll you just bought for your child was pro from an importer, who got it from some exporter in China or perhaps Hong Kong or Taiwan, who had it made in Hunan Province, or Guongdong or...wherever. According to the US DOL "In the case of the People's Republic of China -- the second largest exporter of garments to the US in 1995 -- documenting labor practices, including child labor, remains extremely difficult"' The National Labor Committee report on Chinese factories shows that difficult does not mean impossible, but imagine trying to assess conditions in the 1,000 or so Wal-Mart suppliers in China.

Absent the anti-sweatshop movement, firms would, moreover, have no incentive to assay and report on labor conditions even if they could easily monitor those conditions. Firms which produce under poor conditions will never advertise the fact, lest consumers shun their products. They will report good conditions, just as will firms with good conditions. From this perspective, the real problem with labor standards in LDCs is that while consumers may be willing to spend a bit more for products made under good labor conditions and would penalize egregious cases of poor standards even more, there is no simple market mechanism to assure them that the extra 50 cents or whatever they might be willing to pay for higher labor standards in fact benefits the low paid workers who make the product. Something more is needed to marshal the dollars, yen, euros, and pounds that could raise labor conditions for at least some workers in less developed countries.

The human rights groups campaigning for standards are unwilling to develop labels, for fear that the first time it was discovered that a producer with poor standards fooled them, they would lose their credibility. Potential competition in labeling by groups, moreover, risks a degradation of labels. In handwoven rugs the number of labels has grown as different retailers and producers seek to distinguish their product.

Bottom line

Because most consumers want products produced under good labor standards, the advocates of standards have changed the debate on globalization. But they have accomplished their true goal: to improve the well-being of large numbers of workers in LDCs. The standards movement can cite a few situations in which workers benefited from their efforts, but the number of beneficiaries is small indeed: a NIKE factory here, a GAP factory there, some minimal progress in firms who have embraced codes. But the numbers mean that these are at best enclaves of minimally decent work. Indeed, as long as the standards movement focuses solely on workers employed in the subcontractors of multinationals in export sectors, it cannot reach more than 2-3% of workers in the LDCs directly. For conditions to improve for workers more broadly, gains in that export sector must spread to domestic producers in LDCs as well. This is difficult because despite ratification of ILO Conventions, there are major problems in getting accurate information about conditions of work and in enforcing labor laws and codes. It is not enough for the world community to gain agreement to standards. The ILO and the world trade system need mechanisms and resources to help LDCs overcome barriers to compliance of their own labor laws, and in ways that bring more benefits than losses due to potential increases in costs and loss of employment. The moral sentiment favoring decent work conditions, which has the potential to increase the flow of resources to LDCs through markets, has not been galvanized in the right direction to accomplish this. The battle over standards has been all-absorbing, doing more good by bringing to the fore the weaknesses of the functionaries and their solutions than by offering a positive road forward to improve the well-being of workers in the LDCs.

V. Can the Standards Movement Improve Working Conditions?

There is no simple panacea for poverty and bad working conditions, but I believe that the world community can better tap the moral sentiments of consumers and activists to improve labor conditions in LDCs. There are four ways in which to do this. The first is for the ILO and WTO to provide more and better information about standards and their enforcement around the world, so that NGO groups could give global consumer labels to the products of particular countries. The second is through bilateral trade agreements that include labor standards clauses in those agreements. Third, the international organizations and NGOs could make a joint effort to turn export processing zones into a model of "globalization with a human face" rather than the epitome of poor conditions that many are. Fourth, anti-sweatshop advocates and unfettered globalists should work jointly to reduce barriers to LDC imports into advanced countries and to lower the debt on countries that cannot pay debts and grow under almost any conditions.

Information and international organizations

Improved information is necessary for greater compliance with labor standards. Workers have to know they have rights before they can take action to assert them and to improve conditions. Recognizing this, the AFL-CIO and the International Confederation of Free Trade Unions (ICFTU) recently launched a global campaign to post a list of the core worker rights in every workplace in the world. Copies of the ILO-designed poster in various languages can be found on the AFL, ICFTU, and ILO web sites. While few workers in LDCs have access to the web, the rapid growth of the Internet is extraordinary even in the poorest countries, and many LDC activists do have access. This tool can help galvanize workers and unions in LDCs fight for their own rights and conditions.

In both advanced countries and LDCs, consumers need information about conditions to reward "good" firms and punish "bad" ones by their buying decisions. NGOs play a crucial role in gathering such information and presenting it to consumers in compelling fashion. As a result of the growing anti-sweatshop movement in recent years, a variety of NGOs, public-private partnerships, and for-profit organizations have emerged to provide monitoring and verification services to help consumers find products meeting minimum standards. But what consumers really need are widely recognized labels that they can use to decide about the purchase of commodities. Neither the ILO nor any other international organization is likely to develop "good conditions labels", they could place countries into categories based on conditions, A, B, C, etc. The private market could then use this "official" information to bring consumer pressures to bear on countries to improve their compliance.

Information is also essential for governments, the ILO and other international organizations to pressure recalcitrant governments to improve their compliance with standards. The WTO uses the Trade Policy Review Mechanism to catalogue and publicize each member's remaining trade barriers in the hope that the information will stimulate pressures for further liberalization from those who bear the costs—both at home and abroad. Traditionally, the ILO has relied on an extensive supervisory mechanism, and rewarded countries who seek to improve standards by providing technical assistance. With the standards movement pressuring the world trade community, the ILO approved a new convention calling for immediate action against the "worst forms" of child labor, and for the first time in its history, has moved toward penalizing countries that flagrantly contravene core labor standards. Article 33 of the ILO constitution provides that, if satisfactory compliance is not forthcoming, "the Governing Body may recommend to the [International Labor] Conference such action as it may deem wise and expedient to secure compliance therewith." The ILO Conference in 1999 suspended technical assistance to Burma and barred it from meetings. A year later, the Conference recommended that members take action to ensure their relations with Burma did not in any way support the use of forced labor. The follow-up mechanism for implementing the Declaration Fundamental Principles and Rights at Work," that spelled out the four core labor standard, requires that all governments report on the consistency of their laws and practices with these principles, regardless of whether they have ratified the related conventions. And the ILO Director-General's "global report," will assesses the overall status of each of the core standards (one per year in a four-year cycle) and highlight particular problems in particular countries. Though criticized for "naming names" when the first report was released in 2000, Director General Somavia insisted that specificity was critical to the credibility of the process.[14]

[14] This process may already have borne fruit as Saudi Arabia, which along with its Gulf neighbors was sharply criticized in the global report for barring unions, announced in early 2001 that it would permit the formation of "worker organizations."

In the WTO, members from less developed countries have resisted US entreaties to create a working group on labor issues, much less to consider how labor standards could be incorporated into trade discussions. While unions and some NGOs in these countries support international efforts to raise labor standards in their countries, they typically share the concerns of their governments about linking enforcement to trade agreements for fear that such authority would be abused for protectionist purposes. The European Union and some individual member states have also criticized the unwillingness of the United States to rule out the use of trade sanctions to enforce labor standards. And the WTO has refused requests to consider trade-related labor standards when conducting trade policy reviews, leading the ICFTU to take up the task in recent years (the reports are available on their website at www.icftu.org). The WTO must be willing to include information on labor conditions as part of its reviews, possibly relying on ILO teams to provide that information, if it is to be part of the solution to the information problem.

The Somavia administration at the ILO has struggled to move the organization into a more active vein, but turning around this large complex bureaucracy is difficult. ILO supervision of core labor standards compliance remains more passive than active, relying mainly on self-reporting by governments or on complaints from self-selected constituent monitors. But if the ILO actions on Burma and in naming names of violators are the norm for future action, the organization would become more than a ”toothless tiger”.

Adherents to the unfettered globalization view regard a strengthened ILO as less dangerous to free trade than tying standards to trade through the WTO or related agreements. If they put their money with their mouth is and endorsed major increases in funding for a new set of ILO initiatives, perhaps through some modest charge on WTO members, this would further energize the institution. At the next world trading conference, the protesters and functionaries could join together chanting “Hey, hey, ho, ho, more money to the ILO” instead of fighting over giving the WTO power over standards.

Labor standards in trade agreements

If labor standards are not to be made part of any world trade agreements, individual countries can respond to consumer desires for improved standards through bilateral agreements. In 1984, Congress added worker rights conditions to the US Generalized System of Preferences, which grants preferential trade benefits to developing countries. Congress also added labor rights to the list of US negotiating objectives for the Uruguay Round in the Omnibus Trade and Competitiveness Act of 1988, but to no effect. During the 1992 presidential campaign, Clinton insisted that a side agreement on labor standards and on environmental issues was the price of his support for the North American Free Trade Agreement. The resulting North American Agreement on Labor Cooperation relies on “monetary assessments” rather than sanctions and requires only that member countries enforce their own labor laws. It has resulted mainly in studies and consultations between the American and Mexican labor ministries and no dispute has at this writing been referred to an arbitral panel that could impose penalties for non-enforcement.[15]

At the end of Clinton’s second term, US trade negotiators agreed with Jordan’s to include labor and environmental issues in the main text of an agreement creating a bilateral free trade area and to make those provisions subject to the same dispute resolution procedures, including the possibility of sanctions, as all other parts of the agreement. Although the Jordan FTA has hortatory language encouraging the parties to strive to comply with core labor standards as identified by the ILO, neither agreement establishes minimum, internationally-accepted, standards that must be met as part of the

[15] In the years since NAFTA was negotiated, Canada has signed bilateral trade agreements with Chile and Costa Rica that include provisions on labor standards similar to the NAFTA side agreement and enforceable only through the assessment of fines (Elliott 2001). We are not aware of any other trade agreements that address labor standards.

deal. Despite the relatively weak language, proponents of labor standards in trade agreements welcomed the Jordan deal as a precedent and many members of the business community and advocates of unfettered globalism strongly opposed for the same reason. The agreement, which was motivated primarily by foreign policy concerns to begin, was approved in the wake of the September 11 attacks. Such agreements have the potential for providing particular countries, in this case Jordan, with a marketing ploy that they can and should use to expand their exports.

Making export processing zones a beacon of standards

Export Processing Zones (EPZs) – areas of countries designed to produce for the global market, with various tariff and other concessions – are the most readily identifiable face of globalization. According to the ILO (1998, 3), there were 845 EPZs around the world in 1997, more than half in North America (320) and Asia (225), and another 133 in Latin America and the Caribbean. The specific features of zones – whether they are physically isolated, industry-specific, or more integrated into the local economy – vary widely from country to country. But they all share the aim of attracting foreign investment and creating jobs by promoting exports through incentives, including tax holidays and duty-free imports, dedicated infrastructure, and low labor costs. Given these characteristics, EPZs are a logical place for the ILO and WTO to work together to demonstrate that trade and labor standards can raise living standards in poor countries.

Some countries explicitly apply lower labor standards in the zones than in the rest of the economy. The website for Bangladeshi EPZs, for example, advertises its production-oriented labor laws" including prohibitions on unions and on strikes within the zones (www.bangladesh-epz.com/p_law.htm). More often, many governments look the other way or de facto collude with EPZ investors to discourage union organizing in the zones and make little effort to enforce national labor laws in these areas (US Department of Labor 1989-90; Romero 1995; ILO 1998; ICFTU 1996). By guaranteeing freedom of association and helping or pressuring countries enforce labor codes in these zones, the world trading community and ILO could improve credibility to the international trading system. Forced and child labor do not appear to be major problems in EPZs.

When the Multi-Fiber Arrangement (MFA) phases out in 2005, some EPZs are likely to decline in importance. Under the MFA, the United States and European Union restrict imports of textiles and apparel through an elaborate system of country-specific import quotas. This creates a comparative advantage for low-productivity countries because they have unfilled quotas while potentially more productive suppliers are quota-constrained. Combined with China's entry into the WTO in 2002, the MFA phase-out could mean that many smaller countries relying on low-wage, low-skill labor to produce apparel will no longer be competitive. Increased productivity and value-added will be more important in textile and apparel exports, putting a premium on increased worker training and good labor relations. A joint WTO-ILO project to make EPZs a model of best-practice in core labor standards compliance, funded by developed countries and the World Bank, could assist poor countries in adapting to the MFA phase-out and moving up the development ladder.

The starting point for such a project should be a baseline survey of standards in EPZs, done jointly by the WTO and ILO or by on its own. Either way, the result should be a website that lists basic facts about EPZs in various countries—whether labor laws apply equally in and outside zones; unionization rates in zones and the rest of the country; average hours and wages; accident rates; the percent of women in the labor force and so forth. Improving the collection and dissemination of such data is an ILO objective and this project could be used to give further momentum to that effort. This would provide the world community, from governments to consumers to human rights activists with the information on which they can base decisions. The next task would be for the ILO to develop operational criteria for "best practice" in labor standards If the ILO were accorded sufficient resources to do credible monitoring, it could develop a certification system for EPZs, or an information base that NGOs and others could provide the appropriate scoring system, much as the Fraser Foundation, Heritage Foundation, and Freedom House rate countries on economic freedoms. Certification would provide useful information to investors looking for a stable and productive labor environment and to consumers who prefer products made under decent conditions.

Finally, as a last resort, EPZs, or firms within them, with egregious violations of core standards could be subject to trade restrictions. This could be negotiated in theory in the ILO without WTO participation, as has occurred with various multilateral environmental agreements.[16] But the WTO *should* also be involved. After all, its job is to discipline trade distortions. Violations of core labor standards to attract foreign investment or to promote exports are a trade distortion as much as subsidies or other forms of aid to traded sectors and the WTO should not ignore them. The key to an effective policy is not, however, sanctions, but reputations that can affect consumer decisions about purchasing products and multinational decisions to invest in particular LDCs.

Level playing field for LDC products and debt reduction

Assume that you could choose between a) eliminating all barriers to LDC products in advanced countries and substantially reducing the debt burden of the poorest countries; or b) improving information and monitoring on labor standards in LDCs. If your goal was to make the lives of LDC workers better, you would choose a). Elimination of tariffs and other barriers to LDCs, particularly in agriculture, and reduction of huge debt burdens almost certainly can create more good for more people than improved labor standards for workers in export sectors or even more broadly. Activists in the standards movement invariably favor debt reduction. Unfettered globalists invariably favor elimination of trade barriers. In each case there are transitional problems and groups within advanced economies who would lose from these changes. While is more difficult to engage consumers about tariffs and debt than about their own consumer items, the activists should seek to convince people about the benefits that could flow from these policies. If the protestors at the next global summit march under banners "Drop debts, drop tariffs, raise standards", perhaps some of the functionaries will throw off their grey suits and join in and we could see a major change in the world trading and labor system.

VI. Conclusion

The battle over labor standards between the advocates of standards and unfettered globalists is a strange one.

The evidence that unfettered globalization improves economic well-being is far from conclusive.. Some globalizers do well, but others have failed or been failed by the world financial institutions in their time of need. Countries that have followed disparate strategies have succeeded. Similarly, the evidence that pressures to raise labor standards improve economic well-being is far from conclusive. Labor standards are hard to enforce. If enforced solely in the subcontractors of major multinationals whom activists have targeted, they affect only a modest proportion of workers in LDCs.

Despite this, the battle over standards has been a fierce one. In part, this is because the battle is not simply about standards, but rather about the rules of globilization and governance of the world economy. It has highlighted the weaknesses of the IMF and World Bank strategies for economic development and opened the door for more realistic and innovative policies. Most important, it has created the potential for engaging citizens in the advanced countries in raising living standards and conditions in LDCs to a greater extent than anything since the US created its Peace Corps. What is needed is to move from the battlefield to a serious program to use that moral sentiment to make lives

[16] The problem of non-signatories complaining to the WTO if they are hit by trade measures, which has been a concern in some MEAs, should not occur often, if at all, in the labor area because the ILO has thirty-odd more members than the WTO.

better in LDCs. Both the functionaries and protestors should move from combat to working toward ways of harnessing the good will and moral sentiment of persons around the world to improve standards and incomes. It is time for a new phase in the battle over labor standards.

Exhibit 1: The Case for Unfettered Globalization

1. Trade raises economic growth

2. Free capital flows raise growth

3. Growth reduces poverty

4. Consensus policies increase trade, capital flows, and growth

Conclusion: **Unfettered Globalization is the best way to obtain rapid economic growth and to reduce poverty around the world**

Exhibit 2: The Case for Labor Standards

1. Trade without standards leads to race to bottom

2. Uncontrolled capital flows create debt problems

3. Unregulated trade and growth raises inequality and does little for poverty

4. Trade sanctions could effectively enforce labor standards

Conclusion: **Global standards are necessary to raise the well-being of workers and must be part of any future world trade agreement**

Exhibit 3: The Arguments Over Standards

Advocates of Standards	Unfettered Globalists
Standards improve labor's bargaining power and give workers voice in national debates over reforms (ibid. Rodrik, 1999; Sen, 1999)	Sweatshop conditions in export sector better than rest of LDC economy
Standards increase spending on LDC products by assuring consumers that goods are made under good conditions (Elliot and Freeman, 2001)	Standards raise costs and lower employment in urban sector, which already is labor's elite
Standards alter terms of trade in favor of LDC goods (Brown, Deardorff, Stern, 2001; Chau and Kanbur, 2000)	No universally agreed standards beyond slavery
Standards stop "race to bottom from the bottom" (Chau and Kanbur, 2000)	Even if standards are desirable, WTO trade sanctions are inappropriate tool

EXHIBIT 4: Survey Findings on Consumers Expressed Desire for Labor Standards

Marymount University Center for Ethical Concerns	**1995**	**1996**	**1999**
Would avoid shopping at retailer that sold garments made in sweatshop	78 %	79 %	75 %
More inclined to shop at stores working to prevent sweatshops	66	63	65
Willing to pay $1 more for $29 garment guaranteed made in legitimate shop	84	83	86
Most responsible for preventing sweatshops Manufacturers Retailers Both	 76 7 10	 7e+05	 7e+05
What would most help you avoid buying sweatshop clothes Fair-Labor label Sweat-Shop List	 5633		

University of Maryland Program on International Policy Attitudes	%
Feel moral obligation to make efforts to ensure that people in other countries that make products we use do not have to work in harsh or unsafe conditions	74
Willing to pay $25 for $20 garment that is certified not made in sweatshop	76
Find arguments for/against labor standards convincing Standards will eliminate jobs Standards interfere with national sovereignty Low Standards give unfair advantage Low standards are immoral	 37417483
US should not import products in violation of labor standards: Products made by children (under force or without chance for school) Made in unsafe / unhealthy places Workers are Not allowed to unionize	 817742
Do not expect workers in foreign countries to make US wages, but to make US wages, but to permit wages to rise by allowing unions / stopping child labor	82
Favor lowering barriers that limit clothing imports Without hearing about costs of protection After hearing costs of protection	 3653

NBER Survey	%
Consumers who say they care about the conditions of workers who make the clothing they buy: A lot Somewhat Only a little Not at all / No Response	 46% 38 8 8
Willing to pay more for an item if assured it was made under good working conditions Amount willing to pay for $10 item Amount willing to pay for $100 item	81 % $ 2.78 $14.99
At same price would choose alternative to T-shirt that students say is made under poor conditions	84%
Would buy T-shirt made under poor conditions at discount of	$4.38
Would not buy T-shirt made under poor conditions at all	65%
Would pay more for T-shirt if came with assurance it was made under good conditions Amount would pay	67% $0.87

Exhibit 5:

See separate PDF file

Exhibit 6: The Experimental Evidence

Game	**OECONOMICUS**	**ACTUAL**
Prisoner’s Dilemma	Always Defect	Often Cooperate
Ultimatum Game	Boss takes almost all	Reject highly uneven sharing
	Workers accept crumbs	Most prefer smaller amount fairly shared
Dictator Game	Dictator takes all	Most people give moderate amount to partner
Standards	Does not pay attention	Pays more for products made under better conditions????

Exhibit 7: Timberland Statement on Code of Conduct and Monitoring

Our business takes us all over the world, and that means partnering with companies in more than 25 countries. We put together a Code of Conduct in 1994, because we believe that everyone we impact with our business deserves the right to a fair, safe and non-discriminatory workplace. These are the standards to which we hold ourselves and by which we choose and evaluate business partners.

We use both internal and external resources to evaluate factories and to check how they comply with our Code of Conduct.In 1998, we started working with Veritéé, a nonprofit, non-governmental organization (NGO) to audit factories making Timberland®® products. This included all footwear and apparel vendors, along with some licensees' facilities.In 2000-2001, all facilities making Timberland®® products, including tanneries and major component suppliers, were audited.In 2000, audits of all footwear facilities were performed for health and safety issues, including air quality sampling, noise, and light measurements.In 2001, follow-up audits by Veritéé were performed on half of the vendor base.In addition, we have compliance monitors in Asia that visit factories every 8-12 weeks. These auditing efforts have helped improve worker conditions. Employee compensation, overtime payments, discrimination, break times, along with health and safety issues, have all shown improvement. We work with factories to make changes by providing training and information. For example, in 2001, we organized Veritéé payroll training in 24 factories in China. This impacts about 6000 workers. We choose to use local resources such as NGOs and government agencies, to provide training and programs that are more effective and can make lasting changes. In 2000, we organized training for 1500 workers at our factory in Dominican Republic. CIPAF, a local NGO, gave sessions for 5 weeks on human rights, local labor law, and our Code of Conduct.

Source:Timberland web site,
http://www.timberland.com/cgi-bin/timberland/timberland/corporate/tim_about.jsp?c=Global%20Labor%20Standards

Exhibit 8 - The Chain of Production: Retail to Factory

see separate PDF file

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